Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

CONFIDENTIAL

PAGE 01 BELGRA 04182 01 OF 02 212148Z
ACTION EUR-12

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R 211630Z JUN 77
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC 1124
INFO USMISSION NATO
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AMCONSUL ZAGREB

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 4182

E.O. 11652: N/A
TAGS: ECON, EGEN, YO
SUBJECT: YUGOSLAVIA ON VERGE OF INCREASED IMPORT RESTRICTIONS

DEPARTMENT PASS EXIMBANK

REF: BELGRADE 3081

SUMMARY: YUGOSLAVIA APPEARS SET SOMEWHAT BELATEDLY TO TAKE SELECTIVE MEASURES TO MODERATE THE HIGH RATE OF IMPORTS WHICH HAS OCCURRED IN THE FIRST FIVE MONTHS OF THE YEAR. THE YUGOSLAV TRADE DEFICIT DURING THIS PERIOD IS 1.764 BILLION DOLLARS, AN INCREASE OF 106 PERCENT OR 909 MILLION DOLLARS OVER THE SAME MONTHS IN 1976. AS INVISIBLE EARNINGS WILL PROBABLY SHOW LITTLE, IF ANY, GROWTH IN 1977, THE INCREASED TRADE DEFICIT WILL IMPACT DIRECTLY ON THE CURRENT ACCOUNT. THE RESULTING DEFICIT SHOULD PRESENT NO SERIOUS SHORT-TERM PROBLEMS, ALTHOUGH THE INTERNATIONAL FINANCIAL COMMUNITY WILL UNDOUBTEDLY EXAMINE FUTURE LOANS TO YUGOSLAVIA WITH MORE CARE. END SUMMARY.

1. YUGOSLAV IMPORTS IN THE FIRST FIVE MONTHS OF 1977 TOTALLED
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PAGE 02 BELGRA 04182 01 OF 02 212148Z

3.882 BILLION DOLLARS, AN INCREASE OF 40 PERCENT OVER 1976. EXPORTS INCREASED BY 10 PERCENT TO 2.118 BILLION DOLLARS. THE RESULTING TRADE DEFICIT OF 1.764 BILLION DOLLARS MORE THAN DOUBLED THE SIZE OF THE 1976 DEFICIT AFTER THE SAME PERIOD LAST YEAR. IMPORTS FROM THE U.S. INCREASED BY 68 PERCENT TO 246 MILLION DOLLARS, WHILE YUGOSLAV EXPORTS DECLINED BY 29 PERCENT TO 120 MILLION DOLLARS, WHILE YUGOSLAV EXPORTS DECLINED BY 29

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

PERCENT TO 120 MILLION DOLLARS. THIS IS A CONTINUATION OF THE TRENDS REPORTED IN REFTEL. THE DECREASE IN YUGOSLAV EXPORTS MAY REFLECT DIFFICULTIES IN REMAINING COMPETITIVE IN THE U.S. CONSUMER MARKET.

2. WHILE PART OF THE IMPORT INCREASE CAN BE ATTRIBUTED TO THE RAPID INCREASE IN INDUSTRIAL PRODUCTION (UP 11.3 PERCENT OVER THE FIRST FIVE MONTHS OF 1976), VIRTUALLY ALL CATEGORIES OF IMPORTS HAVE SHOWN SIGNIFICANT INCREASES. RAW MATERIAL IMPORTS ARE UP 33 PERCENT TO 2.376 BILLION DOLLARS, EQUIPMENT IMPORTS ARE UP 42 PERCENT TO 959 MILLION DOLLARS, AND CONSUMER GOODS ARE UP 72 PERCENT TO 347 MILLION DOLLARS. PART OF THE PROBLEM IS THAT THE TERMS OF TRADE HAVE DETERIORATED FOR THE YUGOSLAVS THIS YEAR. IMPORT PRICES ARE UP 15 PERCENT WHILE EXPORTS HAVE INCREASED IN PRICE BY 10 PERCENT.

3. IT IS STILL TOO EARLY TO HAVE A CLEAR PICTURE OF THE TREND IN INVISIBLE EARNINGS, BUT PRELIMINARY INDICATIONS ARE THAT NET INVISIBLE INCOME WILL REMAIN ABOUT AT 1976 LEVELS. TOURIST EARNINGS THROUGH APRIL ARE DOWN 6 PERCENT AND BOOKINGS FOR THE REST OF THE TOURIST SEASON ARE DOWN 10-15 PERCENT. AS REFTEL POINTS OUT WORKERS' REMITTANCES IN THE OPINION OF THE YUGOSLAVS WILL SHOW A 1 TO 2 PERCENT DECLINE THIS YEAR. WHILE FOREIGN CONTRUCTION EARNINGS SHOULD INCREASE, THEY WILL BE AT LEAST OFFSET BY INCREASED INVISIBLE OUTFLOWS FOR TRANSPORTATION, TOURISM AND INSURANCE. THE RESULTING STAGNATION IN INVISIBLE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BELGRA 04182 01 OF 02 212148Z

INCOME MEANS THAT THE INCREASE IN THE TRADE DEFICIT OVER THE 1976 LEVEL WILL NOT BE OFFSET BY INCREASED INVISIBLE EARNINGS AND WILL IMPACT DIRECTLY ON THE CURRENT ACCOUNT.

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PAGE 01 BELGRA 04182 02 OF 02 212153Z
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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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C O N F I D E N T I A L SECTION 2 OF 2 BELGRADE 4182

4. RECENT STATEMENTS BY LEADING YUGOSLAV OFFICIALS IN THE ECONOMIC AREA INDICATE THAT THE GOVERNMENT IS REACTING TO THE SITUATION AND THAT MEASURES WILL SHORTLY BE INTRODUCED TO STEM THE IMPORT FLOW. THEY HAVE INDICATED THAT THEY FAVOR MORE SELECTIVE MEASURES THAN THOSE APPLIED IN 1975, HOPING TO AVOID SOME OF THE STRUCTURAL PROBLEMS AND PRESSURES, INCLUDING A DEPRESSIVE EFFECT ON PRODUCTION, WHICH RESULTED FROM THOSE RESTRICTIONS. IN AN INTERVIEW PUBLISHED IN THE JUNE 19 EDITION OF "POLITIKA", DR, BERISLAV SEFER, VICE PRESIDENT OF THE FEC, SAID THAT "IMPORT COVERAGE (BY EXPORTS) IS DECREASING TO THE POINT WHERE INTERVENTIONS WILL BE REQUIRED". IN THE SAME INTERVIEW, NISIM KONFINO, FEC MEMBER RESPONSIBLE FOR FOLLOWING ECONOMIC TRENDS, SAID THAT "THE PUBLIC SHOULD BE PREPARED FOR LOWER IMPORTS UNTIL THE END OF 1977, BUT THE SAME METHODS (ADMINISTRATIVE RESTRICTIONS) USED IN 1975 WILL NOT BE APPLIED". DR. EMIL LUDVIGER, FEDERAL SECRETARY FOR FOREIGN TRADE, SAID TO THE COMMITTE FOR FOREIGN ECONOMIC RELATIONS OF THE SFRY ASSEMBLY ON JUNE 16 THAT THE ONLY WAY OUT OF THE SITUATION IS THROUGH COORDINATED ACTION TO BRING CURRENT TRENDS IN LINE WITH 1977 TARGETS, NOT ONLY IN THE SPHERE OF FOREIGN TRADE, BUT ALSO BY CHECKING PRICE INCREASES, REGULATION OF EXPENDITURES, AND
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PRODUCTION. HE ALSO SAID THAT "CERTAIN INNOVATIONS" IN THE EXPORT-IMPORT REGIME WILL BE FORTHCOMING, PERHAPS EVEN BEFORE THE END OF THE MONTH. THESE WOULD NOT BE ANYTHING NEW, ONLY A SELECTIVE UPGRADING OF THE EXISTING REGIME.

5. COMMENT: YUGOSLAV IMPORTERS HAVE BEEN EXPECTING A CURTAILMENT FOR SOME TIME, WHICH PARTIALLY EXPLAINS THE CONTINUED HIGH LEVELS OF IMPORTS--IMPORTERS ARE TRYING TO GET AS MANY GOODS AS POSSIBLE INTO THE COUNTRY BEFORE THE DOOR IS SHUT. WHAT IS LESS UNDERSTANDABLE IS WHY YUGOSLAV GOVERNMENTS AND PARTY OFFICIALS LET THE SITUATION DEVELOP TO THE POINT WHERE IT IS DIFFICULT, IF NOT IMPOSSIBLE, TO FULFILL THE CURRENT ACCOUNT TARGETS SET SIX MONTHS AGO. ONE LIKELY EXPLANATION IS THAT THE REAL ECONOMIC PRIORITY IN 1977 IS A HIGH RATE OF GROWTH OF INDUSTRIAL PRODUCTION. CONTROLLING IMPORT GROWTH--UNTIL NOW -- HAS BEEN LESS IMPORTANT THAN INSURING THAT IMPORTS ARE AVAILABLE TO SATISFY INDUSTRIAL NEEDS.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

6. IT MUST RANKLE THE YUGOSLAVS THAT FEDERAL DIRECTION IS
NEEDED JUST WHEN NEW LEGISLATION IS ATTEMPTING TO TRANSFER MORE
RESPONSIBILITY FOR THE BALANCE OF TRADE FROMTHE FEDERAL
GOVERNMENT TO "SELF-MANAGING" REPUBLICAN AND INDUSTRY BODIES.
MEASURES WHICH WOULD AT LEAST MAINTAIN THE SPIRIT OF NEW LEGISLATION
COULD CONSIST OF CENTRAL (INCLUDING LCY) JAWBONING COMBINED
WITH INTER-REPUBLICAN CONSULTATIONS ON TOLERABLE LEVEL OF TRADE
DEFICIT AND ACTUAL CONTROLS ADMINISTERED BY THE REPUBLICS.
THIS COMBINATION WOULD PERMIT FEDERAL ORGANS TO ESCAPE THE
ACCUSATIONS LEVELED AGAINST THEM IN 1975 FOR ARBITRARY IMPORT
RESTRAINTS WHICH CAUSED DISLOCATIONS IN THE ECONOMCY. ON THE
OTHER HAND, PLACING THE ONUS ON THE REPUBLICS MAY NOT PROVIDE
SUFFICIENTLY VIGOROUS OR TIMELY EFFECT, AND WE MAY SEE
IMPOSITION OF RESIDUAL CONTROLS WHICH NEW LAWS LEAVE WITH
THE FEDERAL GOVERNMENT.
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7. EVEN WITH CORRECTIVE MEASURES, A CURRENT ACCOUNT DEFICIT
FAR LARGER THAN THE 300-500 MILLION DOLLARS ENVISIONED EARLIER
IN THE YEAR BY YUGOSLAV PLANNERS IS ALMOST A CERTAINTY. WHILE
THE ACTUAL SIZE OF THE DEFICIT DEPENDS ON THE SPEED AND
EFFECTIVENESS OF THE GOVERNMENT ACTIONS, IT COULD EASILY BE
AROUND 1 BILLION DOLLARS. GIVEN THE HIGH LEVEL OF RESERVES
(AROUND 2.8 BILLION DOLLARS AS OF MARCH 31) WHICH YUGOSLAVIA
CURRENTLY ENJOYS AND THE WILLINGNESS TO DATE OF THE INTERNATIONAL
FINANCIAL COMMUNITY TO CONTINUE ITS LENDING IN YUGOSLAVIA, A
DEFICIT OF EVEN THIS SIZE SHOULD PRESENT NO SERIOUS SHORT-TERM
PROBLEMS. IT WILL, HOWEVER, DRAW ATTENTION TO THE SIZE OF
YUGOSLAVIA'S FOREIGN BORROWING (AROUND 7.7 BILLION DOLLARS
AT THE END OF 1976) AND RAISE QUESTIONS IN THE FINANCIAL
COMMUNITY ABOUT THE LEVEL OF FURTHER LENDING TO YUGOSLAVIA.
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